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EFFECT OF GOVERNMENT CONTROL ON MARKETING METHODS AND COSTS—DISCUSSION

JAMES E. BOYLE.—1. Our attitude towards government control of marketing depends on our information concerning this control. The source of this information, therefore, becomes a question of fundamental and vital importance. We must be on our guard here. An illustration will make my meaning clear. A clever young newspaper man who had once flourished in Dallas, Texas, last winter wrote an article in praise of the Food Administration's control of the grain trade. This article, very effective and very inaccurate, was published in a popular Philadelphia weekly noted for articles of this type. There it came to the attention of the Food Administration. It was reprinted as a government bulletin and franked throughout the length and breadth of the land as part of the propaganda work of this bureau and doubtless came to the attention of many hundreds of thousands of readers. I was in personal contact with many things discussed in this article and I know that many of its major statements were misrepresentative and misleading. The author of this article soon after its appearance joined the staff of the Food Administration.

This merely illustrates one phase of that propaganda work conducted the last year or two by our government. Students in the realm of agricultural economics who have long used the *Weekly News Letter* of the Department of Agriculture recall how this paper was once a four-page sheet of useful information but has lately grown into a twelve- or sixteen-page organ, playing one tune with variations, namely, what the Department of Agriculture "has done for the farmer." Other branches of the government are competing in similar publicity campaigns about their own virtues. It is superfluous to mention the name of Creel in this connection, except to give the crowning illustration of the melancholy fact that propaganda work by the government—like its wholesale bribery of labor—has now reached tremendous and overwhelming proportions.

And here, by the way, is one danger of government control; the government will not tell the people the truth about the mistakes made in connection with this control, and private critics are likely to be punished in some of those subtle ways at the command of the government. One suggestion is here pertinent, namely, that if we are to have government control of marketing, then we need some form of "independent audit" of this control, such as a private corporation has when it is examined for its stockholders by a certified public ac-

countant. However, the point I wish to make is that if our ideas of government control are based to any extent on government propaganda, then these ideas are subject to heavy discount.

2. The complexity of government control this last year is the condition that confronts us when we start to study this question for ourselves. I will speak only of the grain trade in this five-minute discussion, for it is the only phase of government control which I was able to study first-hand, continuously, for a period of several months. Think of the complexity of this one problem. There was involved, first, the Coal Administration with its coal shortage and its coalless Mondays. These affected the terminal grain elevators, the hospital elevators, the grain-drying plants, the industrial alcohol plants, and other branches of the grain trade. Second, there was the Railroad Administration with its car shortage; its recurring embargoes on grains and on grain markets; and the impossibility of moving grain at times from country to terminals. In the third place, there were the unusual severe winter storms in the grain belt, affecting both the Coal Administration and the Railroad Administration. And again, there was the corn crop with several hundreds of millions of bushels of wet corn rapidly spoiling on the hands of the farmer or country shipper because it could not be moved fast enough to the terminals where the drying machinery was located. Then there was the cash market for corn far above the futures, making hedging no protection; there was oats in sympathy with corn, with cash above futures; there was barley reaching the high price of three cents a pound, or the same price as ordinary wheat was selling for; there was whole wheat going abroad instead of flour, leaving the dairy industry without one basic feed (one cause of the present high price of milk).

These complex market conditions, I say, make it difficult to learn precisely what are the effects of government control on methods and costs of marketing. In the brief time at my disposal I can do no more than state baldly my own *conclusions* without citing the evidence.

3. No revolutionary changes were made in the *methods* of marketing grain. A grain buyer was added to those already existing on each big market. This buyer bought cash grain and also received consignments. He did not, however, perform the usual services of a commission merchant. He did not cash drafts in advance of arrival of cars. He did not call for reinspections. He did not look after claims. He did not furnish cleaning or mixing of off-grade or low-grade grain. He merely took the grain at government grades and dockage.

As far as *costs* are concerned, he charged the same commission on

consigned grain as regular commission merchants. Since he performed less service for the consignor at the same price, it was tantamount to an increase in cost. The regular dealer called for reinspection when his client's interests warranted it; he cashed drafts and made prompt returns to the country; he took in hand the car shortage problem, getting back into use many old discarded second-hand cars, he looked after the cleaning or mixing of grain when necessary, or sold the lowest grades to grain salvage houses.

The history has not yet been written of the confusion wrought in the big grain markets, such as Chicago, by the overlapping jurisdictions of the various government boards and by their conflicting orders, rules, and regulations. I am satisfied, by what I saw myself in Chicago, that this confusion, coupled with the earlier named factors of bad weather, car shortage, and coal shortage, caused a loss running into hundreds of millions of dollars in the case of corn alone. A very large part of this loss was avoidable. The history has not yet been written of the voluntary regulations of the cash and futures markets in the interest of the public by the Directors of the Chicago Board of Trade and other grain exchanges, under the pressure of war emergency, and at financial sacrifices to themselves. Neither has the history been written of the evolutionary growth of these great grain markets, in the years before the war, showing how their directors (or their members themselves through the initiative and referendum system of self-government in vogue) had adopted appropriate rules to keep these exchanges open and competitive markets so that the grain could be marketed at any and all times, even war times, on a very low margin of cost.

My own conviction is that had there been much less government control of the grain trade, the farmer would have had more for his grain, the public interests would have been served much better, and at much less cost.

GUY C. SMITH.—The present seems quite too early to measure accurately the effects of the government's efforts to control the marketing of certain products. It further appears that the aim of those in charge of this work was not so much to eliminate evils, real or imaginary, which existed in prewar times as to prevent certain undesirable conditions which might arise as a result of the war. On the whole, the effect of government control on marketing is well summarized in Professor Hibbard's statement that "We have had a shaking-up, not a regeneration." This is well illustrated in the marketing of liquid milk. The proper distribution of the consumer's dollar between pro-

ducers and distributors of milk had become a matter of more or less bitter discussion before the war began. Consumers and producers constituting the large majority of the interested persons in this discussion, the distributors were the objective for frequent and severe indictments of extortion in their charges for service. The margin of 4 or 5 cents per quart which they maintained was absolutely necessary to obtain a small margin of profit has now been increased, with the approval of at least a part of the Regional Milk Boards, in about the same proportion as has the price allowed the producers. No net result is discernible in this phase of the business. There has been a noticeable effect in certain other phases of the business, notably the attempt of the producers, through organization, to exercise a growing influence in favor of their interests. This has not been confined to organizations for collective bargaining, but in a few scattered instances to the taking over of the actual business of distributing their product. These attempts have hardly established themselves on a permanent basis. Three such plants located in as many New England states are still in a condition of uncertainty as to their ultimate success. Only one of them has made any successful effort to reduce the cost of distribution, and in this case the entire reduction has been added to the price paid the producer, the price charged the consumer being made to conform to that of nearby cities. The status of all milk producers' organizations two or three years from now is even more problematical because of the readjustments which seem likely to take place when the increased demand for the dairy products of this country, due to the war, has subsided to a new normal.

What appears to be one of the most permanent results of government influence on marketing is the emphasis which has been laid upon the standardization of farm products. One illustration will suffice. The indorsement by the Federal Food Administration of potato grades recommended by the United States Bureau of Markets has given a noticeable impetus to the practice of grading. Already some states have taken steps to put these grades into effect on what is likely to become a permanent basis. Both state and federal legislation on the grading of farm products seems likely to result in the near future.

The movement among dairy farmers to organize their interests has been duplicated among other classes of producers. Never has there been such a decided movement in this direction. In one state, forty farmers' organizations for buying and selling were organized in the year ending June 30, 1918. Many other states followed closely in the

movement. This cannot be said to be due entirely to government control, but it is difficult to separate the forces which have brought about so many organizations. Again the net result in this direction cannot be now determined. Rising prices have been favorable to these organizations, both in buying and selling. It remains to be seen how the after-the-war readjustment of prices will affect these groups and the formation of others.

The influence of government regulations on transportation as a factor of marketing should not be overlooked. The increase in the size of minimum carloads may not be a thing of permanence, but it is likely to persist in some measure. More particularly, the propaganda to bring about more extensive and more regular use of the motor truck will probably have more or less far-reaching results.

In conclusion, the greatest effect of government control on marketing has apparently been not so much to bring about new methods as to act as a great educational campaign to acquaint all parties concerned with the steps and processes of distribution, and to bring about a more extensive use of sound practices already established.